

ASSEMBLY CONTINGENT FUND  
YEAR ENDED JUNE 30, 1973 AND THE  
NINE-MONTH PERIOD ENDED MARCH 31, 1974

AUGUST 1974

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Joint Legislative Audit Committee

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California Legislature

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August 6, 1974

The Honorable Leon D. Ralph  
Chairman, Assembly Committee on Rules  
Room 4130, State Capitol  
Sacramento, California 95814

Dear Leon:

Transmitted herewith is the Auditor General's report pertaining to a financial audit of the California Legislature's Assembly Contingent Fund for the year ended June 30, 1973 and the nine months ended March 31, 1974.

In the Auditor General's opinion, the financial statements present fairly the financial position of the Assembly Contingent Fund as of June 30, 1973 and March 31, 1974, and the results of its operations for the periods then ended, in conformity with generally accepted accounting principles, applied on a basis consistent with that of the preceding periods and with applicable state laws.

Expenditures for newsletters, prepared under contract with private vendors, amounted to \$152,782 for the six months ended June 30, 1973 and \$716,698 for the nine months ended March 31, 1974. Competitive bidding procedures to award such contracts have not been utilized.

The Auditor General has recommended that competitive bidding procedures for the award of newsletter contracts be instituted.

Property records have not been compared to a physical inventory of the Assembly's furniture and equipment for five years for Capitol offices and for seven years for district offices.

The Auditor General has recommended that a physical inventory be taken periodically and compared to the property records to ensure that such records are accurate and, further, that a verification as to the location and existence of this furniture and equipment be made.

Honorable Leon D. Ralph  
August 6, 1974  
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Construction work during the periods reviewed was substantially effected by one contractor, Kimmel Construction, Inc. The procedures utilized in connection with this construction work did not require or provide for formalized contracts, or plans or working drawings to accompany such contracts. While competitive bidding procedures for this construction work were absent in fiscal year 1972-73, such procedures were instituted by the Chief Administrative Officer of the Assembly upon his taking office on July 1, 1973.

The Auditor General has recommended that formalized contracts be entered into for all construction work and that working drawings or plans accompany such contracts.

With my warm best wishes,

Sincerely,

A handwritten signature in cursive script that reads "Vince".

VINCENT THOMAS, Chairman  
Joint Legislative Audit Committee

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INTRODUCTION

In response to a legislative request, we have audited the financial statements of the California Legislature's Assembly Contingent Fund for the year ended June 30, 1973, and the nine months ended March 31, 1974.

Section 9127 of the Government Code provides that appropriations of money for contingent expenses of the Assembly and its committees are deposited in and credited to the Assembly Contingent Fund and shall be disbursed under the direction of the Assembly as provided in the rules, orders and resolutions of the Assembly or as provided by the Assembly Committee on Rules.

Rule 17 of the Assembly provides that the balance of all money in the Assembly Contingent Fund is available to the Committee on Rules for any charges or claims it may incur in carrying out the duties imposed upon it by the rules of the Assembly, by Assembly resolutions, or by concurrent resolutions reflecting joint actions of the Assembly and the Senate.

Rule 20 of the Assembly provides that all claims for expenses incurred by investigating committees of the Assembly are to be approved by the Committee on Rules before being presented to the Controller. All other proposed expenditures shall be approved by the Committee on Rules or its authorized representative before such expenses are incurred, unless such expenditure is specifically exempted by the resolution authorizing it.

Section 9129 of the Government Code provides that appropriations deposited in and credited to the Assembly Contingent Fund shall be continuously available without regard to fiscal year, except for appropriations made at extraordinary or special sessions for the expenses of said sessions.

The Assembly Contingent Fund is administered by the Chief Administrative Officer of the Assembly.

OPINION ON FINANCIAL STATEMENTS

We have examined the statements of financial condition of the Assembly Contingent Fund of the State of California as of June 30, 1973 and March 31, 1974, and the related statements of operations and expenditures for the periods then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of the Assembly Contingent Fund as of June 30, 1973 and March 31, 1974, and the results of its operations for the periods then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding periods and with applicable state laws.

Recommendations for procedural improvements are shown on page 11.

Harvey A. Jones, CPA  
Assistant Controller

State of California  
Department of Finance  
Charles A. Johnson, CPA  
Assistant Controller

FINANCIAL STATEMENTS

Assembly Contingent Fund  
Statements of Financial Condition  
March 31, 1974 and June 30, 1973

<u>Assets</u>	<u>March 31, 1974</u>	<u>June 30, 1973</u>
Cash	\$ 666,560	\$3,413,015
Due from General Fund	<u>6,276,186</u>	<u>-</u>
Total	<u>\$6,942,746</u>	<u>\$3,413,015</u>
 <u>Liabilities and Fund Balance</u>		
Accounts payable	\$ 708,286	\$ 539,590
Other liabilities:		
Federal taxes	362,114	273,371
Retirement and insurance contributions	66,783	69,051
State taxes	19,818	16,132
Fund balance, per Exhibit B*	<u>5,785,745</u>	<u>2,514,871</u>
Total	<u>\$6,942,746</u>	<u>\$3,413,015</u>

\*The accompanying notes are an integral part of these financial statements.



Assembly Contingent Fund  
Statements of Operations  
For the Nine Months Ended March 31, 1974  
And the Fiscal Year Ended June 30, 1973

	Nine Months Ended <u>March 31, 1974</u>	Fiscal Year Ended <u>June 30, 1973</u>
Fund balance, beginning	\$ 2,514,871	\$ 4,041,616
Appropriations from General Fund	<u>17,276,686</u>	<u>12,237,887</u>
 Total	 19,791,557	 16,279,503
 Expenditures per Exhibit C*	 <u>14,005,812</u>	 <u>13,764,632</u>
Fund balance, ending	<u>\$ 5,785,745</u>	<u>\$ 2,514,871</u>

\*The accompanying notes are an integral  
part of these financial statements.

Assembly Contingent Fund  
 Statements of Expenditures  
 For the Nine Months Ended March 31, 1974  
And the Fiscal Year Ended June 30, 1973

	Nine Months Ended <u>March 31, 1974</u>	Fiscal Year Ended <u>June 30, 1973</u>
Salaries	\$ 7,178,616	\$ 8,229,658
Supplies and printing	281,650	532,318
Gasoline and oil	47,607	56,730
Automobile rental	240,842	303,878
Mileage and per diem	349,961	350,348
Rent	420,113	489,768
Postage	1,002,281	872,061
Contracts (Note 1)	2,634,567	803,371
Telephone and telegraph	674,135	804,484
Office and building maintenance	86,721	114,183
Equipment repairs and maintenance	71,528	43,655
Furniture and equipment purchases (Note 2)	163,140	292,083
Construction (Note 3)	15,532	38,072
Employer payroll contributions	765,494	760,293
Miscellaneous	99,037	129,462
Reimbursements	<u>(25,412)</u>	<u>(55,732)</u>
Total	<u>\$14,005,812</u>	<u>\$13,764,632</u>

Note: The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

#1 Contract Expenditures

During the nine-month period ended March 31, 1974, the total expenditures of the Assembly Contingent Fund exceeded those for fiscal year 1972-73 by \$241,180.

This increase in expenditures for the 1973-74 period is due largely to an increase in contract expenditures for two items authorized by the Assembly Committee on Rules: (1) the steam cars project, and (2) contracts with private vendors for Assembly members' newsletters. Brief descriptions of these two items follow.

Steam Cars Project

The steam cars project involved contracts totaling \$2,940,339 over a two-year period beginning in November 1973, to accelerate development of an external combustion engine system for a compact urban automobile and to deliver that automobile to the state for evaluation.

During fiscal year 1972-73, only 17 percent of the contracted amount (\$490,473) was expended on the project, compared with 57 percent (\$1,666,505) for the nine-month period through March 31, 1974. The balance of \$783,361 is available to expend through November 1974 when the contracts expire.

Four contracts were executed for the project: two for the delivery of cars, and two for consultants to provide technical assistance to the state and overall coordination and supervision of the project.

After the cars have been tested and evaluated by the state, they are to be returned to the contractors. Each car contract contains a provision that the state receive three percent of any gross revenues received by the contractor from the investment of the state in the project, until the state is reimbursed its total payments to the contractor. The Chief Administrative Officer of the Assembly Committee on Rules and the Director of the Assembly Office of Research stated they did not anticipate that the state would receive any dollar return on its investment in this project.

#### Newsletter Contracts

Prior to calendar year 1973, the Assembly Committee on Rules prepared the majority of newsletters for Assembly members. The work was done by Assembly employees. Newsletters from private vendors were allowed only if the Assembly employees could not meet the production deadlines. However, starting in calendar year 1973, and continuing in calendar year 1974, the committee contracted with private vendors for newsletters. However, competitive bidding procedures to award such contracts were not utilized.

For the last six months of fiscal year 1972-73, the cost of the contracted newsletter was \$152,782. For the nine months ended March 31, 1974, that cost increased to \$716,698.

#2 Furniture and Equipment

Furniture and equipment purchases for the Assembly Contingent Fund are charged to expenses in the year appropriated. Property records for the fund are maintained on a hand posted system for accountability. However, the property records have not been compared to a physical inventory of the Assembly's furniture and equipment for five years for Capitol offices and for seven years for district offices. The Chief Administrative Officer stated that planning for a physical inventory of the Capitol offices began approximately six months ago, and will be effected upon the recess of the 1974 legislative session.

#3 Construction Expenses

Substantially, all construction work by the Assembly Committee on Rules during the periods we reviewed was by one contractor, Kimmel Construction, Inc. The procedures followed by the Assembly Committee on Rules for this type of work did not require or provide for formalized contracts such as purchase orders, or plans or working drawings to accompany contracts. While competitive bidding procedures for this construction work were absent in fiscal year 1972-73, competitive bidding was instituted by the Chief Administrative Officer upon his taking office on July 1, 1973. Our review of selected expenditures for alterations and remodeling in the Capitol Building, including one invoice in the amount of \$12,101, disclosed that the billings for the payments did not adequately describe the extent of the work performed or the amount of time and material involved. The only evidence of an award for the work to be done or for the work having been completed was an initial on the contractor's invoices made by the Chief Administrative Officer.

**Office of the Auditor General**

We reviewed the contractor's records and found that they contained adequate evidence to support the charges made. However, the contractor was unable to locate any plans or working drawings for the items we reviewed.

RECOMMENDATIONS FOR PROCEDURAL IMPROVEMENTS


Based on the information presented in Notes 2 and 3 to the financial statements (see page 9) the following recommendations are made.

We recommend:

1. That competitive bidding procedures for the award of newsletter contracts be instituted.
2. That a physical inventory be taken periodically of the Capitol offices and district offices and compared to the property records to ensure that the property records are accurate, and to verify the location and existence of the Assembly's furniture and equipment.
3. That formalized contracts be entered into for all construction work, and that working drawings or plans accompany these contracts.

SUMMARY OF COMMENT OF CHIEF ADMINISTRATIVE  
OFFICER OF ASSEMBLY

1. The Assembly Committee on Rules began to contract with private vendors for newsletters in calendar year 1973 because of a significant inhouse logjam. If a low bidder, under competitive bidding procedures, was awarded all of the newsletter work, the low bidder would develop a similar logjam.

  
Harvey M. Rose, C.P.A.  
Auditor General

June 28, 1974

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